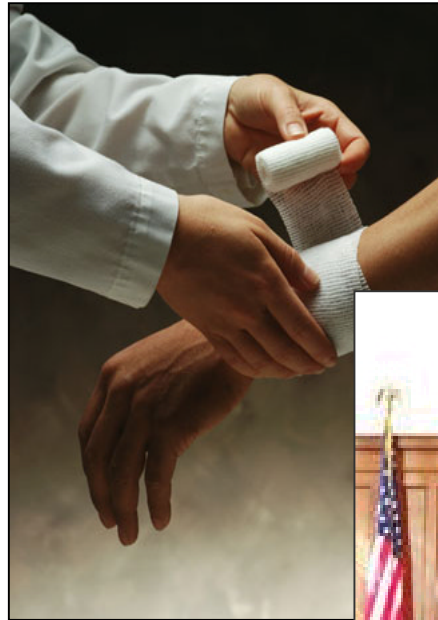




Internal Audit Report

Maricopa County Public Fiduciary
May 2002



Audit Team Members

Joe Seratte, Audit Manager

Thomas Fraser, Associate Auditor

Patra Carroll, Associate Auditor

Lisa Iampaglia, Staff Auditor

Internal Audit Department

301 W Jefferson • 10th Floor • Phx • AZ • 85003 • (602) 506-1585 • Fax (602) 506-8957



May 31, 2002

Don Stapley, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Andrew Kunasek, Supervisor, District III
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our review of the Office of the Maricopa County Public Fiduciary (MCPF). The audit was conducted in accordance with the annual audit plan that was approved by the Board of Supervisors. Our review focused on MCPF's management of the \$22 million in client assets, and included a review of cash receipts, cash disbursements, and disposition of client assets such as real estate and vehicles.

Overall, we found that appropriate controls are in place and that client assets are managed effectively. We also found areas needing improvement. These, along with our recommendations, are detailed in the attached report. Highlights in the report include:

- Controls over client cash receipts, expenditures, and asset disposition are effective and transactions are appropriate.
- User access to the CompuTrust system should be more tightly restricted.
- Transactions involving real estate sales and appraisal services should be spread among a greater number of vendors.

We have attached our report package and the auditee's response, which we have reviewed with the Public Fiduciary and department managers. We appreciate their excellent cooperation. If you have questions or wish to discuss items presented in this report, please contact Joe Seratte 506-6092.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

Table of Contents

Executive Summary	1
Introduction	2
Department Accomplishments	5
Detailed Information	6
Department Response	11

Executive Summary

Cash Receipts Page 6

The office of the Maricopa County Public Fiduciary (MCPF) has developed effective controls over cash receipt processing activities. The department accurately records client cash receipts and reconciles internal and external bank accounts on a regular basis. Our automated testing of cash receipt transactions found no significant exceptions or control weaknesses.

Client Expenditures Page 7

Our review of the MCPF expenditure process, and testing of expenditure transactions, indicate that controls in place are sufficient to protect client assets and ensure that expenditure of client monies are made only on MCPF management's authorization and in the best interests of the client.

CompuTrust Access Controls Page 8

Access to MCPF's CompuTrust system is not consistently restricted on a need-to-know basis. Also, the department does not follow internal procedures that require written approval for system access. Inadequate user access controls diminish the reliability of data and increase the risk of destruction or inappropriate disclosure of data. MCPF should restrict system access as appropriate.

Disposition of Client Assets Page 9

Review of MCPF asset liquidation procedures, and testing of selected transactions, showed that effective controls have been established by MCPF, and that the disposition of client assets is effectively managed. We noted that, of the 24 real properties sold in Arizona during calendar years 2000 and 2001, one appraiser and one realtor were used in 21 and 13 of the transactions, respectively. This practice increases potential exposure to client assets and could give the appearance of favoritism by a County agency. MCPF should utilize additional vendors for these services.

Introduction

Background

In 1973, the Arizona legislature undertook a substantial revision of all laws relating to decedents' estates, guardianships, and protective proceedings. As a result, the Office of the Maricopa County Public Fiduciary (MCPF) was established in 1974 in accordance with Arizona Revised Statute (ARS) § 14-5601, which states: "Each County Board of Supervisors shall create the office of and appoint a public fiduciary. The costs incurred to conduct the office are a charge against county government."

MCPF is the fiduciary of last resort and is referred those cases upon which no attorney, bank trust department, private fiduciary, family member, other person, or corporation is willing or able to act. As a result, a majority of MCPF cases involve few assets. Additionally, MCPF is mandated to provide guardianship for those who are determined to be incompetent. ARS § 14-5601 through 5607 governs the Office.

Since 1988, MCPF has performed funeral functions as mandated by ARS § 36-831. MCPF determines eligibility for indigent burial in County cemeteries, coordinates indigent burials with funeral homes, processes records and payments for mortuaries, schedules burials with Facilities Management, and coordinates clergy attendance at funerals.

MCPF works regularly with the services of physicians, hospitals, psychiatrists, pharmacists, and suppliers of medical equipment. MCPF also interacts on a daily basis with local government agencies including the Maricopa Integrated Health System, Arizona Long Term Care System, and local municipalities.

MCPF currently has a staff of 36, who perform legal, financial, and human service functions in carrying out their duties. MCPF's major services include Probate, Conservatorship, Guardianship, Court Ordered Investigations, Financial Abuse Investigations, Estate Operations, Legal Coordination, and Indigent Burial.

Mission and Goals

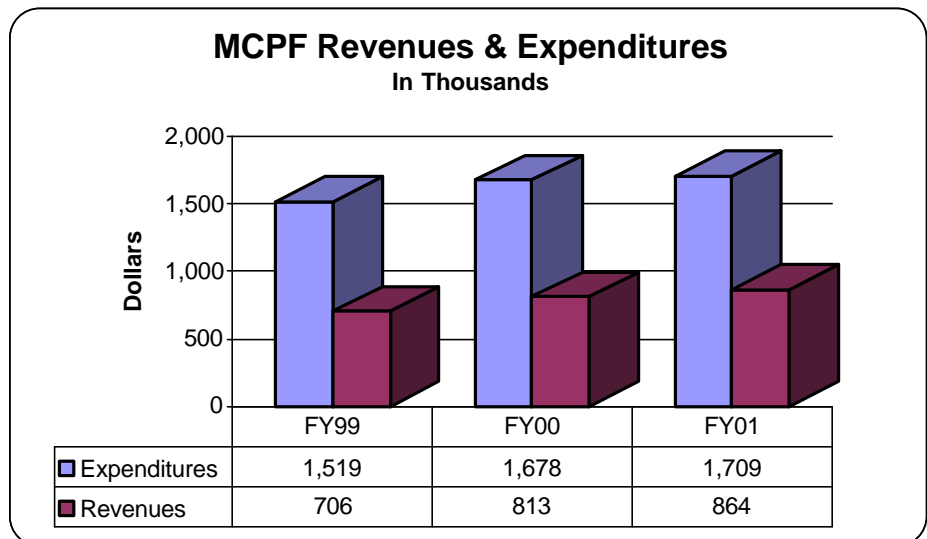
The Mission of the MCPF is to provide guardianship, conservatorship, decedent services, and court ordered investigations for vulnerable persons so their estates and well being are protected.

MCPF has established the following goals:

- Develop and implement a comprehensive fiduciary case management plan.
- Refine current information management system to improve systems and productivity.
- Develop and implement a financial investigation team to protect vulnerable persons by improving the recovery of assets, forensic testimony and responding to the community and the court's increasing demand for these services.

Expenses and Revenues

MCPF's operating budget for fiscal year 2002 is \$1.8 million. The following graph shows the department's revenues and expenditures for the last three fiscal years.



MCPF currently administers approximately 1150 guardianships, conservatorships, and decedent estates with an estimated value in excess of \$18 million. MCPF works with banking institutions, insurance companies, realtors, and estate sales managers in the administration of client estates.

**Scope and
Methodology**

Our audit objectives were to determine if MCPF:

- Records client cash receipts accurately, reconciles accounts on a regular basis, and collects all revenues due the clients.
- Expends client monies appropriately and in the best interest of the clients.
- Employs effective controls and obtains fair market value in the sale and disposition of client assets.

This audit was performed in accordance with Government Auditing Standards.

Department Reported Accomplishments

Maricopa County Public Fiduciary provided the following information to the Internal Audit Department for inclusion in this report.

PUBLIC FIDUCIARY ACCOMPLISHMENTS

PRODUCTIVITY:

- 98% timeliness in filing of court accountings, guardian reports and court investigation reports over last three years.
- Developed Timekeeper system that is aligned with MFR and Strategic Plan that will provide accurate activity based costs for program.
- Annual revenue has improved by 40% over last three years.
- Department has received Fiscal Fitness Award the last two years.
- Developed Maricopa County's first Gainsharing Plan that continues to be successful.

LEARNING AND GROWTH:

- 20 staff members are certified by the Fiduciary Certification Program with the Arizona Supreme Court.
- 18 staff members are certified by the National Guardianship Foundation.
- We have developed a Financial Investigation Team (FIT) to handle financial abuse investigations and cases referred to office.

Issue 1 Cash Receipts

Summary	MCPF has developed effective controls over cash receipt processing activities. The department accurately records client cash receipts and reconciles internal and external bank accounts on a regular basis. Our automated testing of cash receipt transactions found no significant exceptions or control weaknesses.
Control Standards	The State and Local Government Committee of the American Institute of Certified Public Accountants (AICPA) has established a comprehensive list of safeguards and procedural controls over cash receipts. We reviewed the MCPF cash receipt process to ensure it contained applicable, effective internal controls. We also used Computer-Assisted Audit Techniques to identify and test high-risk receipt transactions.
Computer-Assisted Audit Testing	<p>Computer-assisted audit techniques were used to download all cash receipt transactions from calendar years 2000 and 2001. Our analysis identified unusual or potentially high-risk transactions that were then investigated and reviewed. Further audit testing shows the cash receipts represented valid, accurate transactions.</p> <p>Our testing of cash receipt transactions showed that client assets in bank accounts are accurately accounted for, effectively controlled, and adequately protected. In addition, the individual client cash in external bank accounts is properly managed prior to being transferred to MCPF pooled funds.</p>
Cash Receipt Process Controls	<p>In addition to testing transactions, Internal Audit reviewed MCPF's cash receipt process. Our review found no significant weaknesses and indicated the following controls were consistently applied:</p> <ul style="list-style-type: none">• Checks received through the mail were recorded in the CompuTrust mail log, recorded on the cash receipt journal, and posted to the correct client's account.• Reconciling items were supported by source documents, such as deposit slips, bank statements, and receipt journals.• Transfers between bank accounts were properly approved and both sides of the transfer were recorded in the CompuTrust system
Recommendation	None, for information purposes only.

Issue 2 Client Expenditures

Summary

Our review of the MCPF expenditure process, and testing of expenditure transactions, indicate that controls in place are sufficient to protect client assets and ensure that expenditure of client monies are made only on MCPF management's authorization and in the best interests of the clients.

Control Standards

The State and Local Government Committee of the American Institute of Certified Public Accountants (AICPA) has established a comprehensive list of safeguards and procedural controls over cash disbursements and payables. We reviewed the MCPF expenditure process to ensure it contained applicable, effective internal controls. We also used Computer-Assisted Audit Techniques to identify and test high-risk expenditure transactions.

Expenditure Process Controls

Our review of the MCPF expenditure process found no significant weaknesses and indicates that effective controls are consistently applied including approvals by an appropriate level of authority, written policies and procedures, and effective segregation of duties.

Computer Assisted Auditing Testing

We performed comprehensive testing of client disbursements through the use of Computer-Assisted Audit Techniques. We executed a number of targeted tests designed to detect unusual or high-risk disbursements. Audit Command Language (ACL®) software allowed Internal Audit to download 182,000 transactions and analyze selected client disbursement from calendar years 1993 through 2001. We tested for the following high-risk transactions:

- High dollar transactions
- Duplicate payments
- Unusual payment patterns
- Fictitious vendors and Duplicate vendor numbers
- Inappropriate vendor/employee relationships

We selected a sample of transactions from each category and reviewed supporting documentation. All expenditures tested were clearly documented, appropriate in nature, and were made with the correct terms. No exceptions were noted.

Recommendation

None, for information purposes only.

Issue 3 CompuTrust Access Controls

Summary

Access to MCPF's CompuTrust system is not consistently restricted on a need-to-know basis. Also, the department does not follow internal procedures that require written approval for system access. Inadequate user access controls diminish the reliability of data and increase the risk of destruction or inappropriate disclosure of data. MCPF should restrict system access as appropriate.

Best Practice

Generally Accepted Principles and Practices for Securing Information Technology Systems, published by the U.S. Department of Commerce's National Institute of Standards and Technology states: "system access should be based on the principle of least privilege, which states that users should be granted access only to resources they need to perform their official functions."

Controls should be adequate to ensure access to the CompuTrust system is secure and limited. Adequate security helps prevent fraudulent activity and errors.

Control Weaknesses

We observed the following control weaknesses that may affect the security and integrity of the CompuTrust system:

- Two County Attorney users had excessive update access to CompuTrust. NOTE: During our review, MCPF management deleted this capability.
- MCPF does not follow written procedures for establishing and approving user access to the CompuTrust system.
- A high level account was still active, yet it was no longer needed after conversion to the client server environment.

Recommendation

MCPF should:

- A. Consider following established procedures by requiring written authorization for all user access requests, with the proper level of user access for each job function determined by management.
- B. Review all current user access levels and make necessary changes to ensure each user's access level is based on their current job responsibilities.
- C. Review the user access list generated by the PC/LAN group on a quarterly basis to determine that it is still accurate.

Issue 4 Disposition of Client Assets

Summary

Review of MCPF asset liquidation procedures, and testing of selected transactions, showed that adequate controls have been established by MCPF, and that the disposition of client assets is effectively managed. We noted that, of the 24 real properties sold in Arizona during 2000 and 2001, one appraiser and one realtor were used in 21 and 13 of the transactions, respectively. This practice increases potential exposure to client assets and could give the appearance of favoritism by a County agency. MCPF should utilize additional vendors for these services.

ARS Mandate

MCPF client assets are not County property and expenditures made by MCPF on behalf of the client are not subject to County or judicial procurement rules. The powers and duties of the MCPF concerning client assets are set forth in ARS § 14-5424. The statute gives the public fiduciary the right to take possession of client's real or personal property and to dispose of that property when doing so is in the clients' best interests. MCPF is mandated by ARS 14-5418 and 14-5419 to submit annual accountings of client accounts for review and approval by the court.

Process Controls

Our review of MCPF's liquidation process showed that adequate controls are in place to ensure the sale of client assets is effectively managed. Specific controls established by MCPF include:

- Real estate is marketed through contracted real-estate agents.
- Valuation of real property is established by a licensed appraiser.
- Offers are approved by the Public Fiduciary before being presented to the court for final approval.
- Proposed real-estate transactions are advertised in local publications prior to contract execution.
- Vehicles are sold to licensed dealers after receiving a minimum of three bids.
- Personal assets are sold through established resale vendors.

Transaction Testing

In addition to reviewing the liquidation process, we tested a sample of ten real properties liquidated by MCPF during calendar years 2000 and 2001. Testing indicates that MCPF effectively manages the liquidation of client assets in compliance with ARS requirements.

Properties in our sample received an appraisal, were listed and sold for a reasonable price, the sales were approved by the court, the sales were backed up by documentation, and the transactions were recorded correctly in the CompuTrust system.

Limited Vendor Selection

Our review of 24 properties sold in Arizona during calendar years 2000 and 2001 noted that the same appraiser was used on 21 of the 24 properties. Additionally, the same realtor was used to market 13 of the properties during the same time period.

Although actions on behalf of the MCPF clients are not subject to County or judicial procurement rules, the consistent use of the same vendor increases potential exposure to client assets and could give the appearance of favoritism by a County agency.

Recommendation

MCPF should:

- A. Formalize the vendor selection process and maintain adequate documentation to support vendor agreements administered by the department.
- B. Establish and utilize additional vendor agreements for real estate and appraisal services.

Department Response